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## DOCUMENTS, REPORTS, AND LEGISLATION

### Industries and Commerce

SOME PUBLIC AND ECONOMIC ASPECTS OF THE LUMBER INDUSTRY. For four long years nearly 5,000,000 people of the United States have been painfully aware that something is radically wrong with the lumber industry. Countless writers and platform speakers have offered diagnoses, but the first careful, comprehensive analysis is to be found in a public document, popularly known as Report No. 114 and entitled *Some Public and Economic Aspects of the Lumber Industry*, Studies of the Lumber Industry, part I, by William B. Greeley, assistant forester (Washington, Superintendent of Documents, January 24, 1917, 25 cents). The document is one of a series and was prepared through the collaboration of the Forestry Service, the Bureau of Foreign and Domestic Commerce, and the Federal Trade Commission, although for certain statements of fact and methods of presentation the latter body assumes neither credit nor responsibility.

While Mr. Greeley's survey includes the whole industry, certain salient features stand out clearly, among which may be mentioned: A public land policy under which great areas of standing timber were virtually given away on the same basis as common farming lands, thus paving the way for an eventual overstocking of the timber market; the buying of timber too freely by short-time investors; the overcapitalization of the lumber resources; the proneness of lumber manufacturers to spend their time and energy in timber speculations rather than in bringing the mill end of the business to a high point of efficiency; the growing competition of substitutes for lumber; and, lastly, the unstable nature of the lumber business.

The remedies proposed follow along three general lines: A separation of the investment and manufacturing phases of the industry; the adoption of more efficient methods of milling and marketing; and the extension of the National Forests to include many holdings which are now dead losses to their owners.

The study is very valuable because of the mass of data brought into compact form, because of the clarity and succinctness with which lumber activities are described, and because of the frankness used in depicting the illusions and pitfalls of the business. Every person contemplating purchasing timber lands, or building lumber mills, or investing in timber bonds, should first read this report.

The document, however, rests under a curse common to government reports. It was born too late to be of greatest service. The data

relate primarily to conditions up to 1914, and, if the report had been published three years ago, would have been of inestimable value. Today the situation, both from the material and psychological viewpoints, has changed. Hundreds and hundreds of mills have been swept out of existence, and thousands of investors ruined, yet, curiously enough, due to a set of unexpected circumstances, lumber prices are as high as they ever have been. This is explained by the general depletion of stocks in local yards and the inability of mills to supply this shortage due to lack of railroad cars, and to much sentimental talk of the vast amount of timber to be used in building emergency vessels during the present war. The victim, who by all the rules of the game, should have been dead and buried, is showing most astonishing signs of life. Perhaps these activities are but the proverbial rally which is to hasten his untimely demise, but timber dealers, shrewd in understanding human nature, are so busy preparing for heavy investments of Eastern capital that they have no time left to read of the ills of the industry. Thus, while Mr. Greeley's analysis will undoubtedly hold true over a period of years, its immediate importance is lost by a sudden reversal of conditions.

EDWIN CLYDE ROBBINS.

*University of Oregon.*

The Bureau of Foreign and Domestic Commerce of the federal Department of Commerce has recently issued the following publications: In the Special Agents Series:

No. 130, *Wearing Apparel in Japan* (pp. 134), by Stanhope Sams.

No. 131, *South American Markets for Fresh Fruits* (pp. 163), by Walter Fischer.

No. 132, *Markets for Paper, Paper Products and Printing Machinery in Cuba and Panama* (pp. 44), by Robert S. Barrett.

No. 133, *Market for Boots and Shoes in Cuba* (pp. 46), by Herman G. Brock.

No. 135, *Market for Boots and Shoes in Porto Rico* (pp. 28), by Herman G. Brock.

No. 137, *Textiles in Porto Rico and Jamaica* (pp. 31), by W. A. Tucker.

No. 138, *Cotton Goods in British India, Part III, Burma* (pp. 52), by Ralph M. Odell.

No. 139, *Markets for Construction Materials and Machinery in Cuba* (pp. 61), by W. W. Ewing.

No. 140, *Markets for Agricultural Implements and Machinery in Brazil* (pp. 59), by Frank H. von Motz.

In the Miscellaneous Series:

No. 53, *The Cane Sugar Industry: Agricultural, Manufacturing and Marketing Costs in Hawaii, Porto Rico, Louisiana, and Cuba* (pp. 462).

No. 58, *Cotton Textiles: International Trade and Merchandising Methods* (pp. 19).

No. 59, *Methods of Computing Values in Foreign Trade Statistics* (pp. 23), by J. J. Kral.

In the Tariff Series:

No. 30A, *Supplement to Foreign Import Duties on Motor Vehicles and Accessories* (pp. 17).

The federal Bureau of the Census has made a *Study of Cartage Costs in the City of Washington*, prepared by Eugene F. Hartley (Washington, 1917, pp. 14). It is estimated that the total cartage cost for the city of Washington in 1916 amounted to \$8,300,000 as compared with \$7,250,000 for inbound freight. 128 establishments reported their costs, showing the cost of delivery to be 6.2 per cent of gross sales. For ice the delivered cost was 45 per cent; for bottled soft drinks, 20 per cent; for brick, 20 per cent; bakery products, 20 per cent; and laundered goods, 15 per cent. For department store merchandise the cost was 1.5 per cent and for milk it ranged from 12 to 10 per cent of the selling price.

*An Economic Study of Farming in Sumter County, Georgia*, published by the United States Department of Agriculture as Bulletin No. 492, is prepared by H. M. Dixon and H. W. Hawthorne (Washington, Feb. 10, 1917, pp. 64). It is based upon a study of 534 farms with particular reference to the economic significance of tenure, size of farm, farm organization, crop yield, and cost of cotton production.

Bulletin No. 476 of the Department of Agriculture is devoted to a *Study of Cotton Market Conditions in North Carolina with a View to their Improvement* (Washington, March 29, 1917, pp. 18).

Circular No. 66 of the Department of Agriculture summarizes *Suggestions for the Manufacture and Marketing of Creamery Butter in the South* (Oct. 25, 1916, pp. 11).

A letter from the Federal Trade Commission on the *News-Print Paper Industry* has been published as Senate Document No. 49, 64 Cong., 1 Sess. (Washington, June 13, 1917, pp. 162).

The Commission on Living Costs in Rhode Island, under date of January 29, 1917, published Part II on *Food Products* (Providence, pp. 21).

The State Bureau of Labor of Washington has made a compilation of *Comparative Statistics on Foodstuffs and Fuel* for four years as shown in a budget of the annual cost of living of a family of five persons (Olympia, Apr., 1917, pp. 3).

The development of farm markets in Idaho is discussed in the *Second Annual Report of the Director of Farm Markets* (Boise, Dec. 15, 1916, pp. 27). The *Laws Governing Farm Markets Department* as amended in 1917 have also been issued as a reprint (pp. 16).

The Canal Committee of the Chamber of Commerce of Buffalo, N. Y., has made a report on *Ship Channel between Lake Erie and Lake Ontario* (pp. 54). This reviews the history of inland waterways projects in relation to New York state, Lake Erie, and Lake Ontario.

### Corporations

REPORT ON THE PRICE OF GASOLINE IN 1915. The Federal Trade Commission during the latter part of 1915 was deluged with complaints from all parts of the country, charging that the price of gasoline was unreasonably high and was discriminatory as between different purchasers. Though the commission was then conducting an investigation of the petroleum industry in all its phases, it deemed it in the public interest to undertake a special investigation. This report (*Price of Gasoline in 1915*, Washington, April 11, 1917, pp. xv, 224) is the result of that inquiry. Professor Lewis H. Haney greatly assisted in the preparation of the report, and the commission fittingly acknowledges his services.

We may pass over the statistical inquiry into the course of gasoline prices. The significant part of the report for economists lies in the findings of the commission as to the effectiveness of the dissolution decree of 1911 and in its recommendations for future legislation.

The conclusion of the commission was that in spite of the dissolution decree there was little, if any, competition between the former subsidiaries of the Standard Oil Company of New Jersey (the holding company) in the marketing of gasoline—the chief refined product of crude oil. The subsidiaries which are engaged in marketing gasoline are the Standard Oil Companies of New York, New Jersey, Kentucky, Ohio, Indiana, Nebraska, California, and Louisiana, the Atlantic

Refining Company, the Continental Oil Company, and the Magnolia Petroleum Company. The commission pointed out that these eleven Standard companies have with respect to gasoline "maintained a complete division of territory embracing the whole country and that almost without exception each Standard marketing company occupies and supplies a distinct and arbitrarily bounded territory." Thus, the Standard Oil Company of New York occupies the whole of New York state and of the New England states, but no other territory; the Atlantic Refining Company, the whole of Pennsylvania and Delaware, but no part of any other state; and the Standard Oil Company of New Jersey, the states of New Jersey, Maryland, Virginia, West Virginia, North Carolina, and South Carolina.<sup>1</sup> The only exceptions to this division of territory are found in Oklahoma and Arkansas. In Oklahoma—the territory of the Magnolia Petroleum Company—the Standard Oil Company of Indiana has a few tank-wagon stations in the northern part of the state; and in Arkansas the Magnolia Petroleum Company and the Standard Oil Company of Louisiana have stations. None of the "independent" concerns, it should be observed, have territories limited in this fashion. The Texas Company, for example, sells gasoline in thirty-two states and the District of Columbia, and covers ten of the eleven Standard marketing territories. The Gulf Refining Company, the Indian Refining Company, the National Refining Company, the Pure Oil Company, and the Cudahy Refining Company all do business in at least two of the Standard marketing territories, and are able to make profits in competition with each other and the Standard companies.

Moreover, the boundaries of these Standard territories are arbitrary. Almost without exception they conform to state lines. And of course it is clear that state lines, being political boundaries, do not represent the most economical boundaries from the standpoint of distribution. Thus, the Standard Oil Company of Ohio, with a refinery in the northern part of the state, supplies the southern part of Ohio, in spite of the fact that the Standard of New Jersey has a refinery at Parkersburg, West Virginia, just across the southern border of Ohio. Division of territory by state lines, obviously an uneconomical arrangement, would appear to have been adopted for the reason that such a division offers no opportunity for encroachment, and thus avoids disputes.

Further evidence of the absence of competition between the eleven

<sup>1</sup> A map opposite page 22 shows the details.

Standard marketing companies is given by the marked inequalities in the price of gasoline in one territory as compared with another. The report gives numerous illustrations of these inequalities, but it suffices to say that they cannot be explained away on the ground of differences in the cost of refining or of distribution. Were competition effective these inequalities clearly would not persist. The Standard companies in low price territories would make sales in the high price territories, and this would tend to eliminate all differences in price except such as were the result of differences in cost. It is true that some Standard marketing concerns do make shipments into the territory of other Standard concerns; these inter-territory shipments amounted in 1915 to over 200,000,000 gallons. But these shipments represent sales to the company whose territory is "invaded," and the latter is therefore free to dispose of the gasoline as its own product and at such prices as it sees fit. Obviously such sales have no tendency to equalize prices; they permit each company to maintain that monopoly price which yields it the maximum net profit. This they are enabled to do by virtue of the dominant position which they occupy in the trade. The commission estimated that the Standard companies controlled approximately 65 per cent of the gasoline business throughout the United States.<sup>2</sup> The "independents" would thus control about 35 per cent; yet by no means all of this may be regarded as competitive, since it includes the sales of companies, such as the Tidewater Oil Company, in which Standard stockholders have large interests. Moreover, the facts seem to show that though the "independents" compete for business, they follow the *prices* fixed by the Standard companies, charging a high price in those territories where the price is "fixed" high, and a low price where it is "fixed" lower.

The explanation of the lack of competition between the Standard marketing companies, the report brings out, is the existence of a community of interest among these companies based on common stock holding. This community of interest, it should be noted, includes the oil-producing, the pipe-line and the refining companies, as well as the marketing companies. The stockholder lists of the Standard companies as of January, 1915, make it clear that although some changes in the personnel of the stockholders have come about since the dissolution, a majority of the stock of most of the companies continued to be held by the same small group. For example, 55 per cent of the stock of the Atlantic Refining Company was held by the comparatively small group owning 300 shares or more; and this same

<sup>2</sup> The approximate percentages by territories are given on page 144.

group held over 50 per cent of the stock of the Prairie Oil and Gas Company, the Prairie Pipe Line Company, the Continental Oil Company, and the Standard Oil Companies of New Jersey, New York, Ohio, Indiana, Kentucky, and Nebraska. (If the holdings under 300 shares were included, the percentage of common holding would amount to approximately 70 per cent.) Moreover, the Standard Oil Company of New Jersey owned practically all of the stock of the Standard of Louisiana and of the Carter Oil Company; and the presidents of the Standard of New Jersey and of New York owned about 70 per cent of the stock of the Magnolia Petroleum Company. A community of interest among the eleven Standard marketing companies and with crude oil and pipe line properties is thus established.

In addition, the leading officers and directors of the Standard companies are frequently stockholders in several other Standard concerns. To cite one instance, the president of the Standard of New Jersey owned 6,000 shares (worth \$3,258,000 at the end of 1915) in his own company, 4,575 shares (worth \$1,029,375) in the Standard of New York, 1,858 shares (worth \$1,012,610) in the Standard of Indiana, 1,100 shares (worth \$480,150) in the Prairie Oil and Gas Company, and 300 shares (worth \$207,000) in the Atlantic Refining Company. Such common stock holdings naturally tend to restrain competition between the separate companies.

The conclusion of the commission was that the combination which was supposed to have been disintegrated remained a combination in fact, if not in law—a combination based on a community of interest, which in turn was the result of the interownership of stock. In making this statement, however, the commission was careful to say that it did not charge the Standard companies with violating the decree, for common ownership was not prohibited by the dissolution decree. Neither did it intend to criticise the decree itself. The Standard Oil Company being the first important trust to be dissolved, the decree might be regarded as an experiment. But it was the deliberate judgment of the commission that the experiment of dissolving corporations without separating owners had not achieved the desired purpose, which was to restore effective competition. In reply to the argument that at some time in the future a redistribution of territory might be brought about by the “operation of economic laws,” the commission said that there was not sufficient evidence of a tendency to a substantial rearrangement of territory to warrant a reliance upon time and the laws of trade. In reply to the argument that the duplication of plant



facilities made necessary by competition was socially undesirable, the commission declared that the cost of such duplication was the price of competition, and in this industry, in its judgment, competition was worth the price.

In view of the striking facts brought out as the result of its investigation, the commission, in accordance with the duty imposed upon it by section 6 (f) of the Trade Commission act, recommended that Congress enact legislation to remedy the unfortunate state of affairs thus disclosed. Its suggestions, so far as they related to common ownership, were: (1) A law providing for the reopening of antitrust cases on the application of the Attorney General by a bill of review for the purpose of securing such modifications of decrees as new conditions might require. (2) The abolition by legislation of common stock ownership in corporations which have been members of a combination dissolved under the Sherman law, where these companies are engaged in the same line of commerce; or, in other words, to enact into law the doctrine laid down by the courts in the *Union Pacific* and *Reading* cases. (3) As an alternative to the above, an effective limitation upon common ownership of stock in potentially competitive corporations by withdrawing the power of voting and control.<sup>3</sup> (4) If Congress deemed it inadvisable to prevent common ownership, with its almost inevitable restriction of competition, the commission recommended the enactment of legislation which would fix upon the common owners of stock in potentially competing concerns the responsibility for such acts of these concerns as resulted in the prevention of competition. With respect to the pipe lines, the commission urged that the best policy would be to apply the principle of the commodity clause, and segregate the ownership of the pipe lines from the other branches of the petroleum industry.

These recommendations of the commission are timely. The oil trust has been chased from a "legal" into a "liquidating trust"; thence into the holding company organization; and as the result of the government suit of 1906 into a community of interest arrangement based on common ownership of stock. The commission in recommending that we complete the chase demonstrates that it is a progressive and courageous body, willing to advocate far-reaching remedies, when such

<sup>3</sup> It is interesting to note that President Wilson in his message of January 20, 1914, merely suggested that the owners of stock in companies which ought to be independent, but which on account of common stock ownership were not, might be required to decide in which of them they would elect the right to vote.

are seen to be necessary to restore competitive conditions, and thus give effect to the public policy to which the country is committed.

ELIOT JONES.

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REPORT OF THE ROYAL COMMISSION TO INQUIRE INTO RAILWAYS AND TRANSPORTATION IN CANADA. In July, 1916, a royal commission was appointed by the Canadian government, consisting of Mr. A. H. Smith, of the New York Central, Sir George Paish, and Sir Henry Drayton, of the Dominion Board of Railway Commissioners, to make a complete survey of the railway situation in Canada. It being found that Sir George Paish was unable to act owing to illness, Mr. W. M. Acworth was appointed in his stead. The commissioners met under the chairmanship of Mr. Smith, and proceeded to perfect their organization for what, it must be conceded, was a gigantic task. Professor Swain, of Harvard University and the Massachusetts Institute of Technology, was retained to make a detailed examination, with the help of a corps of engineers, of the physical properties of the various railroads concerned, and notably of the Canadian Northern and the Grand Trunk Pacific. Mr. A. H. Smith and Sir Henry Drayton spent some weeks inspecting the railroads of the country, for that purpose travelling upwards of 10,000 miles and visiting all important points from Halifax to Vancouver and Prince Rupert. They conferred with many representative citizens at important centers along the railway lines; and received voluminous reports and statistics from the railway companies concerned. Formal hearings were held in Toronto and Montreal at the offices of the Canadian Northern and the Grand Trunk Pacific. They studied the situation as they found it in the autumn and winter of 1916-1917; and report that they are in substantial agreement as to the necessity for offering constructive aid in bringing the railways through the present crisis. They differ, however, as to the extent and method of government help desirable, and as to the increase and character of government liability and interest now and for the future. The report presented (*Report of the Royal Commission to Inquire into Railways and Transportation in Canada*, Ottawa, 1917, pp. cv, 86, 15c.) therefore includes two reports—a majority report signed by Mr. Acworth and Sir Henry Drayton, and a minority report by Mr. A. H. Smith. As these differ radically in their findings, it will be necessary, first of all, to outline the Canadian railway situation as they found it.

In the first place, the investigation was made imperative owing to the financial disabilities under which the Canadian Northern and the

Grand Trunk Pacific found themselves operating in 1914. It will be recalled that the Grand Trunk Pacific was promoted and constructed by the Grand Trunk Railway System, the pioneer railway of Canada. Under its agreement with the Dominion government, the latter was to build that part of the projected transcontinental system stretching between Winnipeg, Manitoba, and Moncton, New Brunswick, on the Atlantic seaboard. This part of the line, while built at government expense, was to be leased to and operated by the Grand Trunk Pacific for a period of years, the first seven-year period to be free of interest, and thereafter 5 per cent to be paid on the capital cost. The Grand Trunk Pacific, on the other hand, was to build and operate that part of the line running between Winnipeg and Prince Rupert, on the Pacific coast. It will be observed that, by this arrangement, the government was to build by far the costliest part of the completed system, the lines from Winnipeg westward being constructed largely on the prairies. Owing to the fact that the estimated cost of the government's portion of the road, \$67,000,000, was greatly exceeded, finally amounting to \$200,000,000, the Grand Trunk Pacific found itself faced with a very serious situation in 1914, at the outbreak of war. It was, in fact, not earning the cost of operation on its own section of the Transcontinental; and it did not seem possible, in the circumstances that arose, to earn operating costs on the line between Winnipeg and Moncton, not to mention the 5 per cent rental that it would be compelled to pay on the government-built portion costing \$200,000,000. It was compelled to draw upon the Dominion Treasury for financial assistance, and finally to repudiate its agreement with the government altogether.

The Canadian Northern also found itself hard hit by the outbreak of war, and the crisis that had arisen in Canada's internal trade. Starting in a small way in Manitoba, this line expanded into a profitable Granger system in the three prairie provinces of Manitoba, Saskatchewan, and Alberta. Under the daring, and, it must be admitted, clever direction of Sir Donald MacKenzie and Sir William Mann, the Canadian Northern was carried all the way across the continent from Vancouver, on the Pacific, to tide-water at Quebec. Unfortunately it, too, was nearing completion when war was declared in August, 1914. It will be recalled that the British government immediately forbade the flotation of loans on colonial account, except in case specific approval was given. Messrs. MacKenzie and Mann found themselves unable to secure the needed capital to equip their lines and to provide adequate rolling stock, in London; and their securities were, for the time being, unsalable in New York. With a depleted income account, the Canadian

Northern found it impossible to cover operating expenses, and the Dominion government was obliged to come to its support. In view of the fact that it did not seem possible for the Grand Trunk Pacific or the Canadian Northern to make financial headway in the immediate future, without continued government support, the government decided to appoint a commission to thoroughly examine the situation and suggest the best methods of grappling with it. Hence the report under consideration.

The commissioners were directed, to examine specifically, and to report upon, the following points:

1. The general problem of transportation in Canada.
2. The status of each of the three transcontinental railway systems with special reference to:
  - a. The territories covered by each system and the service which it is capable of performing in the general scheme of transportation;
  - b. Physical conditions, equipment and capacity for handling business;
  - c. Methods of operation;
  - d. Branch lines, feeders and connections in Canada;
  - e. Connections in the United States;
  - f. Steamship connections on both oceans;
  - g. Capitalization, fixed charges and net earnings, having regard to (1) present conditions, and (2) probable future development with increase of population.
3. The reorganization of any of the said railway systems, or the acquisition thereof by the state; and, in the latter case, the most effective system of operation, whether in connection with the Intercolonial Railway or otherwise.

The commissioners have reported exhaustively on all these points, and have presented a document of enduring value to all economists, but especially to the people of Canada. It will not be possible, however, in this brief survey, to do more than touch upon the main findings. In the first place they draw attention to the fact that Canada has a railway mileage, in round figures, of 40,000 miles—a very great amount in comparison with its present population of 7,500,000. This mileage far surpasses that of the United Kingdom and of France, with populations of 46,000,000 and 40,000,000 respectively. It is equal to that of the German Empire with its population of 67,000,000 and of India with 300,000,000. The Canadian mileage is more striking when compared with that of Australia—18,390 for a population of 5,000,000; or with Argentina,—20,290 for 5,000,000. Canada has one sixth the

railway mileage of the United States, although its population is only one fourteenth that of the republic. To put these facts in another way: Canada has 185 persons for each mile of railway; the United States 400 for each mile, Australia 274, Argentina 238, the United Kingdom 2,000 and Russia 4,000. And what is of equal importance, the Dominion has a magnificent system of inland waterways which will always carry a large part of the country's traffic. If area be considered, Canada will be found, of course, far down the list, but areas represent potentialities rather than actualities. These facts are fundamental and must be kept in mind in studying the Canadian railroad problem. The truth is that, in proportion to traffic and population, Canada has largely discounted its railroad future.

The test of successful railway operation is found in the return on invested capital. Taking into account taxes, rents, and similar items which relate to operation, the relation of net operating income to cost of equipment and road for the Canadian railways, comes out as follows:

ROAD	Net operating revenue	Net rents, hire of equipment, taxes, etc.	Total	Per cent on property investment
Canadian Pacific . . .	\$46,416,743	\$2,109,477 Dr.	\$41,307,266	( <i>Per cent</i> ) 8.34
Canadian Northern . .	10,232,088	1,241,465 Dr.	8,990,623	2.28
Grand Trunk . . . . .	10,373,027	469,926 Dr.	9,903,101	2.33
Grand Trunk Pacific (excluding branch lines)	1,060,346	1,153,283 Cr.	2,213,629	1.15
Transcontinental . . .	429,455	1,371,070 Dr.	948,615 Dr.	Deficit
Intercolonial . . . . .	2,363,478	167,214	2,196,264	1.88

With the exception of the Canadian Pacific, it is seen from the above table that the return is so low on the investment of property in Canadian railroads that the country has built a greater mileage than can be justified on commercial grounds.

The Canadian people are seriously concerned over the present railway situation, not only because the credit of the country is in peril, but also because very large public grants in the form of cash, or lands, or guarantees of securities, or all combined, have been made to the eight main railroads in the country—the Canadian Pacific, the Canadian Northern, the Grand Trunk Railway, the Grand Trunk Pacific, the Grand Trunk Pacific Branch Lines, the National Transcontinental, the Intercolonial, and the Prince Edward Island. Not counting the loss of interest for many years upon the investment in roads operated by the government,

the commissioners find that the people of Canada have provided, or guaranteed the payment of, sums totalling \$968,451,737. This works out at over \$30,000 per mile of road. But even this is not all. In addition they have granted great areas of land as yet unsold and unpledged. They have undertaken the construction of other lines whose cost will be an important addition to this large outlay. Further, in the case of some of the companies to which they have given or lent large sums of money to meet pressing needs, they have voluntarily accepted security ranking after the bulk of private capital already put into the undertaking.

The majority report recommends that a new public authority, a board of trustees, be incorporated by act of Parliament, as "The Dominion Railway Company;" and that this board take over the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific. The Canadian Pacific is to be left under its present management. The commissioners who signed the majority report further recommend that the government assume responsibility to The Dominion Railway Company for the interest on the existing securities of the transferred companies. In the scheme as outlined, the Intercolonial and the National Transcontinental will also be transferred to the new company. The commissioners recommend that the whole of the Dominion's railways be operated by the trustees as one united system, on a commercial basis, under their own politically undisturbed management, on account of, and for the benefit of, the people of Canada. They suggest that there shall be five trustees—three railway members, one member selected on the ground of business and financial experience, and one as specially possessing the confidence of railway employees; that the original trustees be named in the act constituting the board; and that their tenure of office be substantially the same as that of judges of the supreme court. It will be seen, therefore, that the commissioners reject absolutely, in the majority report, government ownership of the Canadian railroads.

On the other hand, Mr. A. H. Smith comes to quite contrary conclusions. He rejects the above scheme as being, in essence, but only in a disguised form, a species of government ownership. In brief, his findings are as follows: He would leave the Canadian Pacific alone, and would have the Grand Trunk operate the eastern line now held by that company, and also the eastern line of the Canadian Northern. On the other hand, he would let the Canadian Northern operate the western lines now held by that company, as well as those of the Grand Trunk System, and have the government operate the connections, or procure

their operation by private companies. He is of the opinion that all this can be done under an arrangement that will be just and equitable to all concerned; and expresses the opinion that the day is not distant when the country will have survived the war and resumed its prosperous growth.

It is difficult to say at present which of these recommendations will be accepted by the government. It would appear, however, that no action will be taken in the way of government ownership of the railways till after the war, owing to financial and other difficulties.

At the same time it is imperative, according to both reports, that the government give further financial assistance to both the Grand Trunk and the Canadian Pacific in order that adequate equipment may be provided for traffic purposes during the course of the war.

W. W. SWANSON.

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THE REPORT ON THE CITIZENS WATER SUPPLY OF NEWTOWN (pp. 378, Oct., 1916) made to the Commissioner of Water Supply, Gas, and Electricity of New York by Delos F. Wilcox is a careful examination of the causes of friction in the relations between the city of New York and residents therein, and one of the water supply companies of the city. As a description of the complicated and involved situations which frequently arise in American cities resulting from old disputes, obscure transactions, lack of foresight, and changing municipal policies, it is highly valuable and illuminating. Aside from its discussion of purely local problems, such as the schedule of rates and practices recommended, and the consideration of the desirability and methods of municipal purchase, its greatest value is in its general reasoning regarding valuation and rate making. Here the author makes a positive contribution to the literature of public utility regulation.

In the discussion of rates for fire protection the report states that hydrant rentals in New York, as elsewhere, have been based largely upon guess work and bargaining. Dr. Wilcox seeks a more accurate and scientific basis for hydrant rentals. He is unwilling to accept the theory of the Wisconsin commission, under which fire protection and service to private consumers are regarded as coördinate, each being required to bear its proportionate share of expenses, upon the ground that it would place too heavy a burden upon the city. He holds that the company established its plant primarily to serve private consumers, that fire protection is an incidental service imposed upon it by law.

Therefore, he maintains that it is necessary to estimate the cost of a substitute plant, adequate to serve all the private consumers, and having determined the value of the present plant which serves both the city and private consumers, to deduct from this the cost of the substitute plant. The difference represents the investment attributable to fire protection.

Obviously, this theory makes the cost of fire protection to the city less, and the cost of private service more, than would be the case under the Wisconsin theory. For example, under this "excess-investment" rule, Dr. Wilcox finds that 100 per cent of the water supply system and works, 100 per cent of the buildings and mechanical equipment, and 70 per cent of the distributing system are attributable to private users, whereas the Wisconsin commission, under its theory, has found that 40 to 60 per cent of the fixed charges upon investment in water plants, is chargeable to fire protection alone. It would seem to be a fair question, whether fire protection has not come to be of coördinate importance with serving private consumers, regardless of what a company's purposes may have been when it was originally organized.

The appraisal of the physical property was conducted upon a basis of reproducing the identical plant, but under the physical conditions which prevailed at the time it was constructed. This principle avoids many of the absurd claims which have sometimes been advanced under cover of "cost of reproduction," as, for example, claims for value on account of pavements laid by a municipality, subsequent to the laying of mains.

In discussing lands acquired in advance of present needs, the report states:

If . . . a water company has purchased water-bearing lands several years in advance of their necessary use . . . it is now clearly established that the burden of carrying the lands from the time of their purchase up to the time when their use for public service is reasonably necessary cannot be imposed upon the water consumers, but must be borne by the stockholders of the company.

The reasoning is, that when the lands do actually come into use the company will be permitted to earn a fair return upon their then value. If this value proves to be more than the purchase price plus carrying charges, the company profits by the exercise of its good business judgment. If it proves to be less, the company loses by the mistake in its business judgment. The issue here would seem to turn largely upon the basis of valuation which is to be used. If original cost is to be



used, it would frequently prove advantageous to the public if the utilities would buy land in advance of present needs, even though such land be included in the valuation, before it is actually used. On the other hand, if present value is to be the controlling factor, as it generally is, such a course would frequently prove disadvantageous to the public.

The question of land is further considered under "going value." The issue here was the appreciation in land values, which had largely increased the company's surplus, and which might be regarded as a partial offset to accrued depreciation. Dr. Wilcox states:

. . . If in the course of the development of its business it (a utility company) finds occasion . . . to sell off land at a profit, the entire proceeds should be reinvested in the property, or else the capital account should be diminished to the extent of the withdrawal of funds. The stockholders of a public service corporation are not entitled to sequester the profits from land transactions, and at the same time to compel the consumer to make good all losses through wear and tear and obsolescence of depreciable structures.

This principle appears perfectly sound, but it is one which has ordinarily been overlooked.

In considering the rate of return to be allowed, attention is called to the fact, that the company enjoys neither a complete monopoly of present service nor assurance against future competition. The author admits that, theoretically, the existing and prospective perils of competition might justify a high rate of return. But, he states:

In this particular case the fixing of higher rates, because of such perils, might increase those very perils. The medicine, instead of curing the disease, would aggravate it. The one thing most potent in stimulating competition is high rates, and if the rates were increased to recompense the company for this danger, the likelihood of potential competition becoming actual would only be strengthened.

Obviously, this theory, like many others in the field of public utility control, might be carried so far as to render it absurd. It might be construed to mean that the greater a company's insecurity the lower should be the rate of return, in order to produce greater security. But, of course, this is not Dr. Wilcox's meaning, as is evidenced by the fact that he allows 7 per cent as a reasonable rate of return. The principle here advanced is important, because it calls attention to the fact that a utility is not to be permitted an unduly high rate simply because it has no definite assurance against the possibility of future competition.

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Additional material relating to the federal valuation of railways in the United States published by the Presidents Conference Committee (937 Commercial Trust Bldg., Philadelphia) is as follows:

*Statement Prepared by H. C. Phillips, General Secretary, of the Developments in Connection with Federal Valuation, as of February 10th, 1917* (pp. 15).

*Circular Communication to the Chairmen of Valuation Committees, in Reference to the Supplement to Interstate Commerce Commission Valuation Order No. 7—Schedules of Land* (Apr. 10, 1917, pp. 6).

*Statement Prepared by H. C. Phillips, General Secretary, of the Developments in Connection with Federal Valuation, as of April 20th, 1917* (pp. 18).

*Statement of Developments in Connection with Federal Valuation as of July 2nd, 1917* (pp. 11).

*Tentative Valuation by Interstate Commerce Commission, February 14, 1917, Elgin, Joliet & Eastern Railway with its Leased Lines* (pp. 17).

There have also been published from the office of the Presidents' Conference Committee hearings *Before the Interstate Commerce Commission* on the valuation of the Atlanta, Birmingham & Atlantic Railroad Company; Georgia Terminal Company and Alabama Terminal Company; and the Texas Midland Railroad Company (Feb. 3, 1917, pp. 320); also *Hearings* held March 19-31, 1917, before the commission, in regard to these same roads and additional lines (pp. 935).

Three pamphlets by James B. Nelson, member of the Valuation Committee of the Chesapeake and Ohio Railway Company, have been received, which bear the following titles: *Federal Valuation of Common Carriers under Act of March 1, 1913* (pp. 36); *Some Comments on Federal Valuation of Common Carriers*, an address delivered before the Richmond Railroad Club, February 12, 1917 (pp. 27); *The Chesapeake and Ohio Railway* (pp. 21).

The Guaranty Trust Company of New York has published a pamphlet on *The Railroad Situation* (1917, pp. 26). The National City Company has also issued a pamphlet under the same title, prepared by Pierpont V. Davis, manager of the railroad department of the National City Company (pp. 13).

The United States Department of Agriculture has recently issued Bulletin No. 387 on *Public Road Milcage and Revenues in the South-*

*ern States, 1914* (Washington, 1917, pp. 52, lxxi). This shows the mileage of improved and unimproved roads, sources and amounts of road revenues, bonds issued and outstanding, and a description of the systems of road administration, fiscal management, and other factors affecting road improvement in each state.

The Philadelphia Bourse has made a report on an investigation which has been under way for more than a year and is summarized under the title *The "Philadelphia Plan" for Unified Regulation of Railroads* (Philadelphia, May 1, 1917, pp. 40). This report urges the federal incorporation of companies engaged in interstate commerce; exclusive power of regulation by the Interstate Commerce Commission; the reorganization of this commission into regional commissions subordinate to an appellate body; a more precise definition of the powers of the commission; and a transfer of the powers of investigation and prosecution from the commission to some other agency of the government.

A brief has been received, prepared on behalf of the state of New York, the Chamber of Commerce of the state of New York, and the Merchants' Association, presented to the Interstate Commerce Commission, *Docket No. 8994, The Committee on Ways and Means to Prosecute the Case of Alleged Railroad Rate and Service Discrimination at the Port of New York, et. al., vs. The Baltimore & Ohio Railroad Company, et. al.* (pp. 165). The brief is prepared by Julius Henry Cohen, counsel, and contains a considerable amount of historical material in regard to the early commercial development of New York and New Jersey.

A reprint has been made of a statement of L. F. Loree, president of the Delaware and Hudson Company, before the Interstate Commerce Commission, May 7, 1917, in relation to an *Advance in Freight Rates* (pp. 8).

The Department of City Transit, of Philadelphia, has published an exhaustive report upon *Proposal of the Philadelphia Rapid Transit Company for the Equipment and Operation of City-Built High-Speed Lines* (p. 148). This was submitted to the Common Councils of Philadelphia, March 29, 1917. The contract which was proposed by the Philadelphia Rapid Transit Company is analyzed from four points of view: public policy, necessity, and convenience; legal; construction and engineering; and financing or feasibility. There are a large number of diagrams illustrating the analyses.

Among recent public utility reports to be noted are:

*Thirty-second Annual Report of the Railroad and Warehouse Commission of Minnesota* for 1916 (Minneapolis, pp. 388).

*Second and Third Annual Reports of the Public Utilities Commission of Colorado*, 1915-1916 (Denver, pp. 175).

*Thirty-second Annual Report of the Board of Gas and Electric Light Commissioners of Massachusetts* (Boston, 1917, pp. 267; 533).

*Second Annual Report of the Public Utilities Commission of Maine*, 1916 (Augusta, pp. 590).

*Annual Report of the Public Utilities Commission of Ohio*, 1915 (Columbus, 1916, pp. 466).

The Board of Gas and Electric Light Commissioners of Massachusetts has published in pamphlet form a compilation of *New Legislation of Especial Interest to Gas, Electric and Water Companies and Municipalities Owning Lighting Plants* enacted in 1917 (Boston, pp. 32).

The city of Chicago and the Peoples Gas Light & Coke Co. of that city have accepted an ordinance governing the rates and standards of service, prepared by Edward W. Bemis, consulting engineer, and Donald R. Richberg, attorney, representing the city of Chicago. This ordinance introduces some important new features. It permits a gradual reduction in candle power until in 1919 only a heat unit standard will be required. It requires a reduction in price from 80 cents to an average of  $72\frac{1}{2}$  cents per M feet and a large share in profits with the city beyond a certain amount. It requires liberal furnishing and maintenance of mantles to the consumer by the city; opens all the books and property of the company to examination by the city's experts at any time; and at any time after one year permits of such readjustment of rates or heat standards as the valuation of the property now under way and experience during the next year or two may render advisable. Meantime, the company also contracts to put in a large coke oven plant which will render possible a material reduction in price within three years and also will relieve the market of a large demand for gas oil, thus having a tendency to lessen the rise in the price of oil.

### Labor

**THE OREGON MINIMUM WAGE CASES.** The Supreme Court of the United States rendered a decision on April 9, 1917, which upholds the Oregon minimum wage law. This decision establishes the right of a state to enact a minimum wage law as a health measure. The two cases that were before the court, were first argued in December, 1914.

The brief submitted at that time was prepared by Mr. Louis D. Brandeis, later appointed an associate justice, and Miss Josephine Goldmark. The cases were reargued in October, 1916, by Mr. Felix Frankfurter, the original brief being amplified and brought down to date.

In form this brief (*Oregon Minimum Wage Cases*. Supreme Court of the United States, October term, 1916, nos. 25 and 26, Washington, Superintendent of Documents, 1917, pp. vi, 783) is similar to the well-known briefs that were prepared by Mr. Brandeis and Miss Goldmark and submitted in the shorter hours cases. In the present instance, the statement of the case and the argument occupy 54 pages. Then follows Part First, which consists of 76 pages devoted to the legislation on the subject, including the important sections of the laws in Victoria and Great Britain. The American legislation is given in full. Finally, Part Second, 687 pages, consists of a well-selected and well-organized collection of information which aims to set forth the experience upon which minimum wage legislation is based. This information is drawn from a wide variety of sources. Cuttings from government documents, and public and private investigations, statements of eminent economists, sociologists, publicists, social workers, and statesmen have been marshalled to show the evils resulting from low wages and the benefits that flow from adequate wages. A classified index of the source materials quoted concludes the brief.

The information compiled in the second part of the brief is in itself a valuable piece of work. It is not only well adapted to its immediate purpose but, because of the wide variety of sources from which the information has been drawn, it will be found useful in aiding subsequent study of this important social and economic question. As a method of presenting the latest information bearing on the legal phases of the subject, the brief will impress the layman as a model. It brings to the court matters of common knowledge, and in this respect departs from that form of brief which depends solely upon precedent for support for the argument on the case at bar. In this way current social philosophy can be impressed upon the court more effectively than when the attention of the judges is centered on the argument in previous cases. In a dynamic society, and especially in our own country where change in the fundamental law is difficult—depending largely on constitutional interpretation, it is highly important that current thought receive due consideration. Constitutional forms and theories will in this way be more speedily adapted to the needs of the present. This form of brief accomplishes this

end in an admirable way, and judged by the standard of results secured it has demonstrated its effectiveness. However, it might be argued that, independent of the brief, members of the Supreme Court have come under the influence and have accepted the essential justice of the social philosophy upon which legislation of this character rests. And yet an examination of this and similar briefs will convince the most skeptical that the briefs themselves have certainly contributed to this result.

Persons interested in other forms of social legislation, as, for instance, the efforts of organized labor to limit the use of the injunction in labor disputes, might well take their cue from the experience of the National Consumers' League with the movement for shorter hours and minimum wage laws for women, and organize their campaigns along similar lines. There can be little doubt that the intelligence put into these two movements is bearing fruit and the acceptance by the Supreme Court of the legal principles advanced is rapidly adjusting our constitutional theories to modern social and economic problems.

The argument of the brief is likewise of interest. There were two cases before the court, *Stetler v. O'Hara*, and *Simpson v. O'Hara*, on appeal from a decision of the supreme court of the state of Oregon. Stetler was a paper box manufacturer in Portland, and Simpson was an adult woman in his employ at a wage less than had been determined by the Industrial Welfare Commission in accordance with the minimum wage law of 1913. The plaintiffs made three attacks upon the act. They held that "Oregon was prohibited from enacting this legislation by the equal protection clause; the privileges and immunities clause; the due process clause." The first and second of these attacks were dismissed in this brief either because the phase of the question was adequately treated in the brief submitted to the supreme court of the state of Oregon, or was covered in the subsequent treatment of the due process clause. The real contentions reduced themselves, it was held, to a claim that the plaintiffs had been deprived of liberty or property without due process of law. The outline of the argument is as follows: (1) Oregon by this legislation aimed at "ends" that are "legitimate" and "within the scope of the constitution"; (2) The "means" selected by Oregon are "appropriate and plainly adapted" to accomplish these ends; (3) No right of the plaintiffs secured under the constitution of the United States "prohibits" the use of these appropriate means so adopted by the state of Oregon to accomplish these legitimate public ends.

The purpose of the act was to protect women and minors against the pernicious effects of low wages, of wages less than sufficient "to keep labor going." While the state of Oregon might have tried other means for accomplishing this end than the one chosen, the brief holds that the state should be permitted to experiment with this method "unless it was affirmatively prohibited by the constitution." The brief concludes that the "end" is "legitimate" and the "means" are "appropriate and plainly adapted" to that end.

The remaining question was, Did the act deprive Stetler and Simpson of life, liberty, or property without due process? The essential point here involves what constitutes "due process," and the brief points to a long line of decisions in which the dominant ideas are (1) freedom from arbitrary and wanton interference and (2) protection against spoliation of property. The remainder of the brief is devoted to an analysis of the cases under consideration and to testing the act by the above principles of due process.

What liberty of the plaintiffs' was curtailed? According to the brief nothing but the "liberty" of not being required to get leave of the commission before making contracts below a living wage. Stetler complained that he was restricted to the employment of women "who are capable of performing labor sufficient to earn" \$8.64 or more. The "liberty" claimed by Stetler is the "liberty" to employ \$8 women for \$8 instead of \$8.64 women for \$8.64, which the brief holds to be a nominal and theoretical liberty.

The "liberty" which Simpson asserts as curtailed is similarly fictitious and theoretical. Her allegation was that \$8 is the "best wages and compensation for any employment or labor which she is capable of performing." The brief asserts that "here is an 'inspired' case filed not in her own interest, but in support of her employer's." The real question then is, Are these alleged rights "liberties" protected by the constitution?

Concerning the alleged deprivation of property the brief attempts to show that neither Stetler nor Simpson has been dealt with arbitrarily or wantonly, nor has there been any spoliation of their property. This line of reasoning is worked out in detail and supported by numerous decisions previously rendered by the Supreme Court.

There has been no attempt in this brief to argue in favor of the right of a state to enter the field of interfering with wage contracts except as a health and general welfare measure. Incidentally, other benefits are mentioned, such as the benefit to industrial peace, and to

competing employers, etc., but these occupy a much larger place in the second part of the brief than in the argument proper. The idea of the minimum in the argument is the absolute physical minimum. The rate of wage fixed by the commission is referred to as "the minimum cost of her labor." "It provides for only such quantity of food as will preserve her working energy and for shelter and clothing as will save it from the destruction of the elements." "The significance of this is that the expenditure by some one of every penny of this whole sum of \$8.64 upon Simpson goes to the operation of the industry and merely provides for the cost of that operation. It goes to the maintenance of the energy purchased by the employer and devoted to the industry." The significance, then, of the decision in these cases is that the police power has been extended to include the right of a state to interfere with the freedom of contract of adult women in respect to wages as a health measure.

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LABOR LAWS IN THE PACIFIC STATES. A very readable and thorough survey of the administration of labor laws in Washington, Oregon, and California is given by Hugh S. Hanna in *Labor Laws and Their Administration in the Pacific States*, which is Bulletin No. 211 of the United States Bureau of Labor Statistics and No. 9 in the Labor Laws of the United States Series (Washington, Superintendent of Documents, 1917, pp. 150). The author discusses carefully and fully the legislation then on the statute books (1915) affecting wage payments, unemployment, child and woman labor, compensation, mediation, safety, hours of work, and health regulations. Almost one half of the report is devoted to the subject of compensation for industrial accidents. An introductory statement describing labor and industrial conditions affords a background for the succeeding chapters. It stresses the prevailing seasonal industries which make for unemployment, the floating laborer, the lack of satisfactory provisions for the safety and health of the casual, and the employment of large numbers of women and children in such industries as crop-picking and canning.

After having read the monograph, one lays it down with the feeling that the author has drawn his data almost solely from the official reports of the commissions and boards of the states concerned and that he knows nothing whatsoever of the work of those boards from having had contact with them. One is also disappointed in not finding any story of the various struggles waged by labor unionists and those with



a social point of view in securing the legislation referred to. Another disappointing feature of the report is the total absence of either favorable or unfavorable criticism of the laws or their administration.

The report is what a strict interpretation of its title would suggest, a statement of labor laws and their administration; and as such it is a very satisfactory piece of work.

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Recent issues of the federal Bureau of Labor Statistics are:

No. 219, *Industrial Poisons Used or Produced in the Manufacture of Explosives*, by Dr. Alice Hamilton (Washington, 1917, pp. 41). This study is based upon an investigation extending through the larger part of the year 1916 in 41 factories located in New England, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, and Indiana, employing about 90,000 workers. Of these, about one third are exposed to poisons. All were adult males. It was impossible to obtain accurate figures as to the amount of sickness and death caused by work in this industry since the war broke out, but in 28 plants in one year there were between two and three thousand cases of industrial poisoning reported. The experience with poisons is considered in detail.

No. 223, *Employment of Women and Juveniles in Great Britain during the War*, which is a reprint of memoranda of the British Health of Munition Workers Committee (April, 1917, pp. 121).

Some recent reports dealing with labor are as follows:

*Report of the Department of Factory Inspection of Connecticut for the Two Years Ending September 30, 1916* (pp. 99).

*Twenty-Seventh Report of the Bureau of Labor Statistics of Connecticut for the Two Years Ended November 30, 1916* (pp. 96).

*Proceedings of the First Annual Convention of the Louisiana State Federation of Labor, April 2-3, 1917* (pp. 86).

*Fifteenth Biennial Report of the Department of Labor and Industries of the State of Minnesota, 1915-1916* (pp. 195).

*The Labor Laws of the State of Nevada* (1917, pp. 51).

*Inspection of Workshops, Factories and Public Buildings in Ohio, 1915*, Bulletin of the Industrial Commission of Ohio, vol. III, no. 7 (Columbus, June, 1916, pp. 163).

*Work of the Free Labor Exchanges of Ohio for the Year Ending*

*June 30, 1916*, Bulletin of the Industrial Commission of Ohio, vol. III, no. 8 (Columbus, June, 1916, pp. 60).

*Union Scale of Wages and Hours of Labor in Ohio on May 15, 1916*, Bulletin of the Industrial Commission of Ohio, vol. IV, no. 4 (Columbus, March, 1917, pp. 72).

*Twenty-third Annual Report of the Public Employment Office of the City of Seattle, Washington*, 1916 (pp. 16).

*Report of Survey Committee to the Dallas Wage Commission*. (Dallas, Texas, pp. 16).

### Money, Prices, Credit, and Banking

The Federal Farm Loan Bureau of the Treasury Department has issued Circular No. 7, *Killing off Mortgages. A Description of the Methods of Amortization and their Benefits to Borrowers* (Washington, June, 1917, pp. 16).

The Irving National Bank (Woolworth Bldg., New York) has published a pamphlet on the *Federal Reserve Act* (pp. 30) containing regulations, analyses, and indexes. This includes the amendments approved June 21, 1917, and the regulations issued by the Federal Reserve Board.

The Guaranty Trust Company of New York has also made a *Digest of the Federal Reserve Act* including amendments to June 21, 1917 (pp. 47).

The Post Office Department has issued a new edition of *Title Nine of the Postal Laws and Regulations Relating to the Postal Savings System as Amended* (Washington, July 1, 1917, pp. 71).

An address by Professor Ray B. Westerfield, of Yale University, on *Trade Acceptances*, delivered before the New Haven Association of Credit Men on April 19, 1917, has been published as a reprint.

Recent compilations of state banking laws have been made as follows: *Banking Laws of the State of Maine, 1917* (Augusta, Banking Dept., pp. 89).

*A Compilation of the Laws of Minnesota Relating to State Banks, Compiled in 1915* (Minneapolis, Supt. of Banks, pp. 49).

*Banking and Trust Company Laws of the State of Washington* (Olympia, State Bank Examiner, 1917, pp. 163).

*Laws in Relation to State Banks and Banking, Colorado, 1917* (Denver, pp. 24).

Annual state banking reports have been received as follows:

*Indiana Bank Department, September 30, 1916* (Indianapolis, Auditor of State, pp. 298).

*Annual Report of the State Bank Commissioner of Colorado, 1916* (Denver, pp. 213).

*Report of the Commissioner of Banking, Michigan, December 31, 1916* (Lansing, pp. clii, 635). This includes the opinions of the attorney general relating to banking subjects.

*Report of the State Banking Board of Nebraska, 1916* (Lincoln, pp. xxx, 421).

*Ninth Annual Report of the Bank Commissioner of Rhode Island, 1916* (Providence, pp. xii, 309).

*Annual Report of the Superintendent of Banks of New York relative to Savings Banks, Trust Companies, Investment Companies, Safe Deposit Companies, Personal Loan Companies and Personal Loan Brokers, 1916* (Albany, pp. 689).

*Twelfth Annual Report of the State Banking Department of the State of Idaho, 1916* (Boise, pp. 143).

The following reports of state bankers' associations have been received: *Proceedings of the Twenty-fourth Annual Convention of the Alabama Bankers' Association, 1916* (McLane Tilton, Jr., secretary, First National Bank, Pell City, pp. 160), containing addresses on "Banking conditions in Alabama," by Joseph A. McCord; "Rural credit and colonization in relation to national defense," by Haveland H. Lund; and "The banker and the law," by Milton C. Elliott, including a discussion of the federal reserve system.

*Proceedings of the Arizona Bankers' Association*, vol. X, thirteenth annual session, Nov. 10-11, 1916 (Morris Goldwater, secretary, Prescott, pp. 134).

*Proceedings of the Twenty-sixth Annual Convention of Arkansas Bankers Association, 1916* (Robert E. Wait, secretary, Little Rock, pp. 206), containing an address on "Rural credits," by A. D. Welton; "Warehousing of cotton," by Nathan Adams; and "Reciprocal bank relations, under the reserve act," by J. H. Ardrey.

*Proceedings of the Fifteenth Annual Convention of the Colorado Bankers Association, July, 1916* (Paul Hardey, secretary, Interstate Trust Company, Denver, pp. 182).

*Proceedings of the Twenty-sixth Annual Convention of the Illinois Bankers Association, October, 1916* (Richard L. Crampton, secretary, 208 South La Salle St., Chicago, pp. 280), containing addresses on

"The federal farm loan bank," by Senator Hollis, New Hampshire; "Accounting, collections, transit," by H. R. Aisthorpe; "Commercial paper purchased of brokers," by F. W. Crane; "Farm mortgage loans," by O. P. Bourland.

*Proceedings of the Indiana Bankers Association Twentieth Annual Convention, October, 1916* (Andrew Smith, secretary, Indiana National Bank, Indianapolis, pp. 302), containing an address by William J. Gray on "The federal land bank."

*Proceedings of the Twenty-fourth Annual Meeting of the Kentucky Bankers Association, October, 1916* (Arch B. Davis, secretary, Louisville, pp. 170).

*Convention Proceedings of the Louisiana Bankers Association, 1916* (Eugene Cazedessus, secretary, Baton Rouge, pp. 144).

*Proceedings of the Sixth Convention of the New Mexico Bankers' Association, 1916* (W. A. McMillin, secretary, Albuquerque, pp. 167).

*Proceedings of the Twenty-third Annual Convention of the New York State Bankers' Convention, 1916* (William J. Henry, secretary, 11 Pine St., New York City, pp. 189), containing an address on "The federal reserve system and the banks," by Paul M. Warburg.

*Proceedings of the Twenty-first Annual Convention of the Maryland Bankers Association, 1916* (Charles Hann, secretary, Merchants-Mechanics' National Bank, Baltimore, pp. 115).

*Report of the Proceedings of the Sixteenth Annual Convention of the South Carolina Bankers' Association, July, 1916* (Julian C. Rogers, secretary, Florence, pp. 251). This contains an address on "Country banks and the collection system," by George B. Seay, governor of the Federal Reserve Bank of Richmond.

*Report of the Twenty-fifth Annual Convention of the South Dakota Bankers' Association, 1916* (A. B. Darling, secretary, Western National Bank, Mitchell, pp. 144).

*Proceedings of the Twenty-third Annual Convention of the Virginia Bankers' Association, 1916* (Walker Scott, secretary, Farmville, pp. 275).

*Report of the Summer Convention of the Vermont State Bankers' Association, 1916* (C. S. Webster, secretary, Barton Savings Bank and Trust Company, Barton, pp. 63).

*Proceedings of the Twenty-first Annual Convention of the Washington Bankers' Association, 1916* (W. H. Martin, Pioneer National Bank, Ritzville, pp. 206), containing a report of the taxation committee.

*Proceedings of the Eighth Annual Convention of the Wyoming Bankers' Association, 1916* (Harry D. Henderson, Wyoming Trust and Savings Bank, Cheyenne, pp. 62).

## Public Finance

THE TAX SYSTEM OF CONNECTICUT has recently been the subject of two investigations, one on the part of a special commission appointed by the governor (*State of Connecticut: Report of the Special State Commission Appointed in 1915 on the Subject of Taxation, Submitted to the General Assembly in 1917*, New Haven, 1917, pp. 44, tables), and the other by a committee of the state chamber of commerce (*Report of the Joint Committee on Taxation and State Finance to the Connecticut Chamber of Commerce, Embracing the Report of a Special Study of the Connecticut Tax System*, by Fred Rogers Fairchild, New Haven, 1917, pp. 67, tables). In 1913, as a result of the findings of a special commission appointed in accordance with an act of the legislature of 1911, there had been an overhauling of the corporation tax system of the state. At that time Connecticut adopted a gross earnings tax upon certain public service corporations, telephone, telegraph, express and car companies) and in 1915 the tax was extended to the remaining public service corporations, i.e., railroads and street railways, and to the public utility corporations (gas, electric, and water companies). The public service corporations are taxed upon their gross earnings at rates varying from 2 to 4.5 per cent, with either exemption from local taxation or a deduction from the earnings tax of all such local taxes. The public utility companies pay 1.5 per cent on gross earnings in addition to local taxation of all their property.

The state also taxes the net income of miscellaneous corporations, at the rate of 2 per cent. For this tax the federal income tax machinery is used, Connecticut's law requiring every such corporation to return to the tax commissioner a copy of the return made to the commissioner of internal revenue. In 1916 this tax yielded approximately \$1,600,000 and the administrative expense and effort on the part of the state were exceedingly small.

In addition to the taxes on corporate incomes, the state receives a large revenue from taxes on banking and insurance companies, from the inheritance tax, automobile tax, and the four-mill tax on bonds, notes, mortgages, and certain other forms of intangible personalty. There is also a "state tax" which is apportioned among the towns on the basis of the amount of tax revenue raised in each town. Local revenue comes mainly from the general property tax.

Although the last few years had seen decided improvements in the tax system, there was still in some quarters considerable dissatisfaction and this feeling led to the appointment by the governor, in 1915,

of a special commission to investigate the problems of state revenue and report at the 1917 legislative session. The members of the commission were ex-Governor Simeon E. Baldwin, Mr. F. H. Stadtmueller, a dairy farmer who has frequently served the state in public ways, and Mr. Guy P. Miller, an influential manufacturer.

Interest in tax matters had been so great that in the spring of 1916 the business men, under the leadership of the Connecticut Chamber of Commerce, determined to organize and carry on an independent investigation. A committee was formed, which was later enlarged to include representatives of various interests, such as the insurance companies, the manufacturers, the banking interests, railroads, telephone companies, gas and electric companies, and the grange. Professor Fred R. Fairchild, of Yale University, was employed to conduct the work, with Professor Henry F. Walradt, of Ohio State University, as his assistant. Professor Walradt obtained a half-year's leave of absence from his college position in order to give his entire time to the investigation.

The purpose of the business men's inquiry was to look over the whole tax situation, find where taxpaying ability was, discover to what extent the present system was succeeding in placing the burden of taxation equitably, and to accumulate a body of facts and conclusions which might serve as a basis for recommendations to the state commission or to the legislature. The work was not undertaken in a spirit of opposition to that of the governor's commission. The business men felt, however, that independent experts, less hampered by lack of funds than the legislative commission, might be able to study the problem in a more intensive way and perhaps furnish data which would help the commission in its work for the legislature.

The report of the state commission, issued in February, is a volume of 44 pages. It describes the tax system of the state, criticises it cautiously, and makes some recommendations of changes. The revenue of the state has more than tripled in the last eleven years, jumping from \$3,000,000 in 1905 to \$11,000,000 in 1916. It is the opinion of the commission that this revenue is unnecessarily large and it is suggested that a reduction be made by the state giving up its share of the receipts from liquor licenses, reducing the tax on the towns, and exempting from inheritance taxation bequests to charity. The commission recommends the taxation of insurance companies upon the basis of earnings, which change would also involve some

reduction in taxes. In connection with its consideration of local taxation, the commission suggests increases in the exemptions allowed in certain kinds of personal property, such as musical instruments, books and libraries, household furniture, cash on hand, and bank deposits, together with the entire exemption of watches and jewelry. In order to improve the assessment of the property tax, it is recommended that the state board of equalization be given more authority to employ expert assistance and also that the pay of local assessors be increased.

These four recommendations are the most important suggestions made by the commission. With regard to certain other defects in the Connecticut tax system, particularly the administration of the property tax and the four-mill tax on choses in action, the commission was divided in its opinion, one member, Mr. Miller, being unable to agree to the findings of the other two. He especially calls attention to the inefficient assessment of goods and materials of merchants and manufacturers and other kinds of personal property, and recommends the imposition of an income tax to take the place of the property tax on such property.

In the study of the tax system carried on for the Chamber of Commerce, a few topics were chosen for detailed investigation. The first of these is the problem of the administration of the general property tax. The report gives a mass of evidence showing conclusively that this tax does not work well. Although the taxation of real estate may possibly be considered fairly successful, the taxation of personal property is far from being effective or equitable. Detailed statistics show the inadequacy of the system. In the cases of such tangible personalty as farm animals and machinery, household furniture, libraries, musical instruments, and watches, more property escapes taxation than is taxed, while in the case of jewelry taxation is notoriously farcical.

Much intangible property escapes taxation, in spite of the four-mill tax on bonds, notes, and other such forms of wealth. Connecticut's method of taxing bonds and other choses in action has been the subject of study and commendation, but never before has there been a critical statistical investigation of its actual operation. The report of the Chamber of Commerce study gives ample evidence to warrant the conclusion that, while a considerable amount of property is reached, a great deal, probably the great majority, entirely escapes. What the report shows is the amount listed of various kinds of property, and the amount listed from each of the 168

towns of the state. Gross inequalities in the per capita assessment of the various towns are shown, the amounts ranging from zero or a few cents to over \$2,000. Such inexplicable discrepancies between the amounts listed by the towns, considered in connection with the character of their population, are practically uncontrovertible evidence as to the inefficiency of a tax of this sort.

Two other detailed statistical studies were undertaken, one being an investigation of the relative tax burden borne by the public service and public utility corporations, and the other pertaining to the property tax assessment of corporations, particularly the goods and materials of merchants and manufacturers. In connection with this latter topic there was disclosed an enormous amount of inaccuracy in the listing of property and the preparation of tax returns—so much, in fact, as to forbid any clean-cut statistical conclusions being drawn from the data collected. With regard to the taxation of public service and public utility corporations, the report states that the taxes imposed by the state are in the main equitable and that such inequalities as exist are usually found to be due to local property taxes.

Early in the legislative session there appeared among the leaders a disposition to discourage anything in the way of important changes in the existing tax system. Moreover, during the latter part of the session the attention of the legislature was mainly occupied with problems growing out of the war. As a result, no important tax legislation was adopted. The careful scrutiny to which the state tax system has been subjected has, however, not been in vain. Future discussion is sure to arise and the work done this year has put the public in possession of valuable information and will serve as a starting point for further study and legislative action.

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The United States Tariff Commission under date of April 16, 1917, made a report on *Interm Legislation* (Washington, pp. 38). Though brief, this report has valuable suggestions for students of American finance.

Hearings and briefs before the Committee on Finance of the United States Senate on *Revenue to Defray War Expenses* (Washington, 65 Cong., 1 Sess., pp. 621) dealing with H. R. 4280 have been printed for the use of the Committee on Finance. The subject-matter is classified under the following headings: war income tax; war excess



profits; war tax on beverages; war tax on cigars and tobacco; public utilities, advertising, and insurance; war tax on manufactures; war tax on admission and dues; war stamp taxes; postal rates; and war customs duties.

The Committee on Finance had previously had prepared for its use the hearings and briefs on *Revenue for Increased Army and Navy Appropriations* dealing with H. R. 20573 (Washington, 64 Cong., 2 Sess., 1917, pp. 203).

The National Bank of Commerce, New York, has circulated a pamphlet under the title, *A Constructive Criticism of the United States War Tax Bill* (June, 1917, pp. 22). The criticism is more particularly directed against the House bill.

The Mechanics & Metals National Bank discusses in a pamphlet *Applying Our Wealth to War* the resources that the United States may apply to the present world conflict (20 Nassau St., New York, 1917, pp. 20). This bank has also made a reprint of *The War Loan Act as Approved April 24, 1917* (pp. 11).

The American Exchange National Bank, of New York, has also issued a reprint of the federal tax law of April 24, 1917, authorizing the issue of bonds, *United States War Bond Issue* (pp. 14).

Robinson & Co. summarizes the historical experience of the United States in regard to *War Loans of the United States* (20 Exchange Place, New York, pp. 41).

In the series of Columbia War Papers, Professor Seligman has made a further contribution to that noticed in the last issue of the REVIEW, a pamphlet on *The House Revenue Bill, a Constructive Criticism* (Series 1, no. 16, pp. 22).

The *Proceedings of the Sixth State Conference on Taxation* held at Battle Creek, Michigan, February 1-2, 1917 (George Lord, secretary of the Michigan State Tax Association, pp. 118) contains papers on: "Taxation of mortgages and bonds," by O. B. Fuller, of Lansing (pp. 16-27); "Michigan laws governing assessments," by Arthur B. Williams, of Battle Creek (pp. 55-72); and "Equipment assessments," by Thomas D. Kearney, of Ann Arbor (pp. 72-82).

The office of the state comptroller of New York (Albany) has begun the publication of a monthly bulletin on *State Finances*, the first number appearing in April of this year. Each issue contains about 15 pages.

The Tax Commission of Ohio has codified and revised the *Tax Laws of Ohio* relating to the assessment of real and personal property (Columbus, 1917, pp. 75).

There has been recently published by the tax commissioner of Connecticut the *Quadrennial Report of Indebtedness and Expenditure of Municipalities* (Hartford, 1917, pp. 141).

The State Tax Board of Virginia, in its Circular No. 7, makes a *Digest of Opinions on Tax Questions Rendered by the State Tax Board from June 1, 1916 to April 20, 1917*.

The *Report of the Tax Commissioner of Massachusetts* for the year ending November 30, 1916 (Boston, 1917, pp. 156) devotes some eighteen pages to the subject of corporation taxation. Special topics considered are taxation of life insurance companies, equalization of assessments of real estate, and taxation of legacies and successions, and stock transfer tax.

The *Fifth Biennial Report of the Minnesota Tax Commission* (Minneapolis, 1916, pp. xv, 399) has a chapter on "The taxation of land values" (pp. 84-122); and chapter 10 deals with "The comparative cost of state government," an investigation conducted by Professor Blakey of the University of Minnesota.

The Guaranty Trust Company of New York has for circulation a pamphlet on the *New York State Franchise Tax on Manufacturing and Mercantile Corporations* (pp. 33) and also a reprint of *The Investment Tax Law and the Mortgage Tax Law* of the state of New York as amended in 1917 (New York, 140 Broadway, pp. 61).

### Demography

The federal Bureau of the Census has published *Mortality Statistics, 1915. Sixteenth Annual Report* (Washington, 1917, pp. 707).

Charles F. Gettemy, director of the Bureau of Statistics of Massachusetts, announces that preliminary bulletins will be issued in the near future in regard to the Massachusetts state census of 1915. A typewritten bulletin issued under date of March 7, 1917, deals with the population of the commonwealth as classified by native and foreign born.

A *Preliminary Report* has been made by a Committee concerning Causes of Death and Invalidity in the Commonwealth of Australia (Melbourne, 1916, pp. 6).

In Bulletin No. 207, *Causes of Death by Occupation*, by Louis I. Dublin, the federal Bureau of Labor Statistics publishes the occupational mortality experience of the Metropolitan Life Insurance Company, industrial department, 1911-1913 (pp. 88).

### Insurance

WORKMEN'S COMPENSATION IN NEW JERSEY. By an act approved March 27, 1917, New Jersey has followed the lead of New York, Pennsylvania, and other important industrial states in establishing a state rating bureau for workmen's compensation insurance. Some of the most interesting actuarial and statistical problems in the whole field of insurance have developed in connection with the application of workmen's compensation laws, and the state rating bureau seems likely to become an important part of the machinery for the adjustment and control of compensation insurance rates.

Under the former New Jersey law insurance for the compensation risk was left optional with the employer. This was not altogether satisfactory even from the employer's standpoint. Of two competing employers, one might carry insurance and the other not. And the laborer in many instances was left without any certainty that the payments, with recourse for the amount thereof against his insurance company on the part of an employer might leave the injured workman without recourse.

The new law therefore provides for compulsory insurance, which may be provided under the form of so-called "self insurance," or may be placed with an authorized stock or mutual company. In order to come under the "self insurance" provision, which is merely the carrying of his own risk, the employer must satisfy the commissioner of banking and insurance of the permanence and financial standing of his business. If the insurance is carried by a stock or mutual company the employer is nevertheless left primarily liable for compensation payments, with recourse for the amount thereof against his insurance carrier. But the carrier is directly liable to the injured employee in case of the death, insolvency, bankruptcy, etc., of the employer.

The law further provides for the filing with the commissioner of all classifications, rules, rates, and systems of merit rating, none of which shall be effective until approved, by the commissioner of banking and insurance, on the score both of *reasonableness* and *adequacy*. The commissioner is also authorized to "create, organize, and supervise" a "state compensation rating and inspection bureau." A special deputy, appointed by the commissioner, is to preside over this bureau as chair-

man. All compensation insurance carriers are to be members of the bureau, and no insurance can be written except in accordance with the rules and rates determined by the bureau and approved by the commissioner. The expenses of the bureau are to be defrayed by the insurance carriers. All officers, members of committees, and employees of the bureau are subject to the approval of the commissioner. The commissioner is also authorized to employ an actuary and necessary assistants, to fix their compensation, and to call for such reports and information as may be necessary for the determination of the cost of rates. The act does not apply to employers of farm laborers or domestic servants.

It is obvious that this law gives large powers of control over compensation insurance to the insurance commissioner. In Pennsylvania the manager of the rating bureau is the appointee of the insurance carriers. Under the New Jersey law he is a special deputy of the insurance department. It remains to be seen whether the larger powers of control in New Jersey over the process of rate making will be consistent with a smoothly working bureau. Compensation insurance carriers have pretty fully accepted the principle of coöperative rate making, and also the principle of approval of rates by the insurance commission. This spirit of coöperation was abundantly manifested in the national conference on compensation insurance rates held in New York in January, February, and March last, and if in New Jersey the somewhat unusual powers of control over rate making possessed by the commissioner are exercised with restraint, the chances are that the coöperation which has proved to be so necessary in the making of compensation insurance rates will be forthcoming on the part of the carriers.

The commissioner has made an excellent beginning in the selection of Mr. W. W. Greene as special deputy and chairman. Mr. Green has had valuable experience with the New York Workmen's Compensation Commission and with the Colorado Industrial Commission, and is an actuary and statistician of recognized standing.

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The federal Bureau of Labor Statistics has made an exhaustive compilation of *Workmen's Compensation Laws of the United States and Foreign Countries* (Washington, Jan., 1917, No. 203, pp. 961). This report is presented in three parts. The first reviews the workmen's compensation commissions of the various states; the second summarizes the principal features of the workmen's compensation laws

of forty-six foreign countries; and the third is the text of the workmen's compensation laws of the various states and the federal statute.

The National Industrial Conference Board has issued a pamphlet on the *Workmen's Compensation Acts in the United States: Legal Phase* (15 Beacon St., Boston, Apr., 1917, pp. 62). The preface states that it is intended in later reports to discuss the operation of these acts from the medical, economic, and administrative standpoints. Headings of the various chapters in this particular report are: 1, The adoption and growth of the compensation principle; 2, The form and validity of state legislation; 3, The persons to whom compensation applies; 4, The notice of injury; 5, The assurance of systematic relief; 6, Accident and disease; 7, "Misconduct" by employer and employee; 8, The exclusiveness of compensation; 9, The administration of compensation acts; 10, Conclusions and suggestions.

The Nevada Industrial Commission presents a *Brief* showing the effect of 1917 amendments to the Nevada industrial insurance act of 1913 (Carson City, 1917, pp. 8).

*An Act creating the Industrial Commission of Utah providing for Workmen's Compensation and for other purposes* has been printed as a separate (Salt Lake City, pp. 39).

The Metropolitan Life Insurance Company has for circulation the following pamphlets: *General Population and Insurance Mortality Compared*, a discussion of the mortality experience of the Metropolitan Life Insurance Company, Industrial Department, and of the general population, 1915, prepared by George H. Van Buren (pp. 7); *The Application of the Statistical Method to Public Health Research*, by Louis I. Dublin, reprinted from the "American Journal of Public Health" (p. 14); and *The Vital Statistics of Old Age*, by Louis I. Dublin, reprinted from the "New York Medical Journal" of May 19, 1917 (pp. 6).

The Insurance Society of New York has printed *The Evolution of Employers' Liability Insurance*, an address delivered before the society by Mr. Edmund Dwight (New York, 1917, pp. 11).

*The Organization and Management of a Farmers' Mutual Fire Insurance Company* is described by V. N. Valgren in Bulletin No. 530 of the United States Department of Agriculture (Washington, May 8, 1917, pp. 34).

The special commission appointed by Governor Johnson of Califor-

nia to investigate social insurance has made its *Report* under date of January 25, 1917 (Sacramento, pp. 340). Several chapters deal with: The findings of the commission; The California survey; Health insurance in fourteen countries; Social results of social insurance; Existing facilities for insurance of wage-workers in the United States; Social insurance movement in the United States; and Estimates of cost.

*A Report of the Special Commission on Social Insurance* in Massachusetts also appeared early this year (Boston, Feb., 1917, House Doc. 1850, pp. 311).

A report on *Social Insurance with Special Reference to Compulsory Health Insurance*, made by Dr. John Franklin Crowell for the Chamber of Commerce of the State of New York, is published as a supplement to the *Monthly Bulletin* (65 Liberty St., New York, pp. 92).

The subject of *Compulsory Health Insurance* is also discussed by Magnus W. Alexander in a pamphlet representing in substance the material presented in hearings before the legislature of New York on March 7, and of Massachusetts on March 13, 1917 (Magnus W. Alexander, West Lynn, Mass., pp. 15).

Mr. John T. Stone, president of the Maryland Casualty Company, contributes to the further discussion of this subject in *Problems Concerning the Accident and Health Insurance Business*, an address published by the Insurance Society of New York (pp. 14).